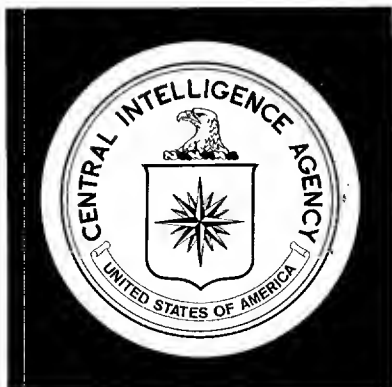


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LAOS: The Communist draft for a settlement tabled at yesterday's session of the peace talks was essentially a fleshing out of previous proposals.

The document, presented by the Lao Communist chief negotiator who returned last Sunday from consultations in Sam Neua and Hanoi, was primarily noteworthy for the specific timetable for implementation it contained. The draft provides for the creation of a broadly based political consultative council and a new tripartite provisional government within 30 days of signature. Until a permanent coalition government can be formed, the two sides would continue to administer their respective zones of control. The proposal also stipulates that Vientiane would be a neutral zone. This proviso apparently is aimed at protecting Lao Communist representatives from a recurrence of the harassment that followed the 1962 agreements.

On military matters, the draft states that an in-place cease-fire would occur once the agreement itself is signed and promulgated. The cease-fire would be supervised by a joint Lao commission, supported by the International Control Commission using the 1962 Geneva Accords as terms of reference. The Lao Communists also propose a withdrawal of all foreign military personnel and advisers within 90 days after the agreement is signed. This goes beyond their initial presentation in October, which focused only on ending US and Thai military involvement in Laos, and probably is a response to Souvanna's long-standing demand that all North Vietnamese be withdrawn. In addition, all future military assistance to each side would require approval by the new provisional government.

Government negotiators, while not specifically addressing the draft agreement, reiterated Vientiane's opposition to much of the Communist formula for a political settlement.

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NATO-MBFR: A number of the allies now prefer limiting any force reductions to Soviet and American troops.

An inclination toward excluding West European troops from the reductions has emerged both in formal statements at last week's NATO ministerial meetings and in informal conversations. French Foreign Minister Schumann said that limitations applied only to stationed forces might be compatible with Western security. Italian Foreign Minister Medici agreed. The British also have made it known that they prefer cuts in Soviet and US forces only. Although the West Germans in the past have argued for inclusion of indigenous forces, they now may be rethinking their position.

The allies probably reason that, of all the possible forms force reductions could take, a simple reduction of US and Soviet forces might affect Western security the least and minimize damage to allied unity. They may hope that such a negotiating approach would avoid getting into the question of forward based nuclear systems and leave untouched the current US commitment to the nuclear defense of Europe.

This trend also suggests that the allies may be thinking more seriously about how to meet their longer term defense needs. All of them face domestic pressures for reductions in defense spending and, until recently, many allies have wanted to share in any mutual force reductions. Detente policies and the enlargement of the EC, however, are forcing them to look beyond the present configuration of East-West and Atlantic relationships. Now that force reduction talks are imminent, the allies appear more willing to live with lower levels of US conventional forces in Western Europe, in return for reductions in Soviet forces in Eastern

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Europe. They do not, however, want MBFR negotiations to encourage an epidemic of defense cuts among the smaller allies. Nor do they want to eliminate future options for the organization of West European defenses. The British, in particular, do not want to rule out the possibility of some sort of European defense force. [REDACTED]

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MALTA: Prime Minister Mintoff has raised the sterling issue in public for the first time.

For several weeks, Mintoff has discussed his differences with the British in private conversations with representatives of the NATO allies. Now he has taken the issue before the Maltese legislature. He apparently is trying to prepare the public for a threat to abrogate the base agreement signed last March unless the British make up the losses Malta incurred since the pound was floated in June. He has told British officials he will refuse to accept the payment due on 1 January 1973 unless the issue is resolved.

Mintoff claims that he and British Defense Minister Carrington had agreed during their negotiations last spring that if devaluation occurred, each side would be at liberty to act as it deemed best. Mintoff, however, appeared to have dropped his demand for compensation in the event of devaluation. After London floated the pound, its value dropped from \$2.60 to less than \$2.35. This means that Malta would receive at least \$2 million less each year than Mintoff had expected.

All the allies except Italy have decided to back the British refusal to make up Maltese losses. The Italians propose that the allies, other than the UK, pay in their own currencies what they had already allocated when the pound was valued at \$2.60.

As in the past, Mintoff is raising the possibility of improving relations with Arab and Communist countries as a bargaining chip. The Soviet ambassador to the UK, who is also accredited to Malta, visited Valletta last week. Malta recently signed trade agreements with Cuba and North Korea.



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PHILIPPINES: President Marcos is depicting last week's attack on his wife as part of a long-standing "rightist" conspiracy against his regime.

His allegations are being directed primarily at the Lopez and Osmena families, both of which have long been powerful forces in the Philippines. In late November, Marcos arrested close relatives and advisers of the heads of these two clans and charged them with complicity in an assassination plot. This plot was allegedly hatched in December 1969 and has already been the cause of some nine attempts on his life since then, according to Marcos.

Given the tradition of violence in Filipino politics, the existence of one, or several, anti-Marcos conspiracies is entirely possible. Previous martial law arrests have been directed generally against "leftist" elements. Marcos obviously believes he is now in a position to move against enemies in the political establishment who could not be implicated in so-called Communist conspiracies.

Marcos' own vice-president, Fernando Lopez, is the titular head of the Lopez family. [REDACTED]

[REDACTED] The vice-president reportedly retains close contact with dissident politicians and agrees with their assessment that Marcos will not be able to maintain his present level of popular support. Lopez is not a particularly forceful individual; although he might serve as the figurehead of some future opposition movement, he would probably not become its effective organizer. If, as appears likely, Marcos succeeds in intimidating Lopez, the vice-president may be allowed to stay on as a useful symbol of administration unity as the president moves to neutralize "right-wing" power centers. [REDACTED]

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PAKISTAN-BANGLADESH: Student rioting in Lahore gives some indication of the problems President Bhutto could face if he continues to press for recognition of Dacca.

In defiance of a government ban, students in the Punjab capital, apparently inspired by a conservative religious party, held a meeting on Monday to protest recognition. The meeting quickly got out of hand; according to the press, two persons were killed and 25 injured in five hours of clashes with police.

The students do not necessarily represent the views of the bulk of the people. Nevertheless, if Bhutto decides to recognize Bangladesh, he will have to take into account the likelihood of further violence--at least in the important Punjab Province. The security forces, however, should be able to control any future disturbances.

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INDONESIA: A one-million-ton shortfall in rice production this year has raised fears of severe shortages and has pushed prices up.

Prices are about 80 percent above last year's level and it is likely that they will continue to rise. Even in the Jakarta region, where the government has started heavy selling from official stockpiles, prices have risen rapidly. Government sales of rice throughout the country are running well ahead of last year's level, and about double last year's rate in Jakarta.

The government has boosted rice imports sharply this year. So far, Jakarta has contracted for about 1.1 million tons of rice--about 600,000 tons more than last year--and some 200,000 tons of other food-grains. Additional supplies of rice are being sought, but there are shortages in several producing countries and competition for surplus stocks available for sale is keen.

The rice situation could worsen before the next crop is harvested. The next harvest will be delayed until late spring due to late planting caused by poor weather.

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SRI LANKA: Insurgent activities on the island are "being continued with vigor," according to a police report issued in the latter part of November

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The report claims that released insurgent suspects--at least 13,000 have been freed from custody in recent months--and those who have escaped from detention camps are particularly active. Some have been stealing food, money, clothing, and a few weapons. Occasional clashes with security forces, which have been strengthened since the wide-scale insurrection in early 1971, reveal that the insurgents are no match for the authorities at this time.

The police report also notes that the young insurgents are working to gain adherents among dissatisfied members of urban trade unions and even in Sri Lanka's large and disgruntled Indian Tamil minority, toward which the insurgents have previously expressed hostility. Attention presumably continues to be focused, however, on recruiting the rural youth from whose ranks came most of the original support for the insurrection. Finally, the report warns that the insurgents, in an attempt to gain the release from prison of their top leader, may attempt to rescue him by force or try to kidnap a ranking government official to be used in an exchange.

The police report also summarizes the difficulties presently faced by the insurgents. Although isolated acts of violence and even attempted kidnappings may occur, the movement does not at this time appear to have the personnel, resources, or organization and leadership necessary to present a serious threat of island-wide disturbances. Over a period of time, however, continued failure by the government to resolve the economic crisis on the island would add significantly to the insurgents' potential.

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GUINEA: Ineptly applied economic reforms have caused shortages of consumer goods in the capital and generated open criticism of President Toure.

The reforms, which include the issuance in October of a new currency and strict enforcement of new price controls imposed early this month, were designed to combat Guinea's numerous black marketeers and to reduce prices on staples. They have resulted instead in a widespread shortage of currency and caused merchants to withdraw their goods from the market rather than sell at the lower prices.

Residents of Conakry, where the shortages are most severely felt, blame Toure rather than the merchants. General disgruntlement with the economic situation and with measures designed to combat it extends throughout the country and is found among most groups, including the military. This has led to unusual direct criticism of Toure. Toure has championed the reforms and ordered their strict enforcement. The government radio regularly announces new arrests of individuals for economic crimes.

Toure already has probably asked for foreign assistance in the form of quick deliveries of consumer goods. He has asked for quick action by the US on Guinea's pending PL480 requests. Toure will be irritated if the US delays its response. Even if help is forthcoming, relief will not be immediately effective in easing shortages. Toure will rely on the army and militia to discourage critics, while he "persuades" merchants to resume selling at the lower prices. Meanwhile, he will probably also search for scapegoats, both domestic and foreign.

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ARGENTINA: Juan Peron reportedly will resolve the question of his candidacy for president before his expected departure today on a trip that will take him to Paraguay and Peru and then back to Madrid. There is much speculation that he will decline the nomination offered him and announce his selection to carry the Peronist banner in the election next March. If a last minute accord with the military or the Radical Party cannot be reached, Peron could decide to let his nomination stand until the Supreme Court rules on the constitutionality of the residency requirement that currently bars his candidacy. Although he is not expected to run in any event, Peron is scheduled to return to Argentina before the 11 March election date. [REDACTED]

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BENELUX: The Benelux countries, concerned over rising imports of Japanese radios, tape recorders, and televisions despite Japan's voluntary restrictions, will impose quantitative import quotas on such goods. The decision to invoke the safeguard clause in the Benelux-Japanese trade agreement follows inconclusive meetings last month between industry representatives from both sides concerning the increasing inflow. Quotas probably will be announced within the next two weeks. [REDACTED]

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EASTERN EUROPE: Outbreaks of hoof-and-mouth disease threaten to upset East Europe's plan to boost exports, as well as its ability to fill domestic demand for meat. Tourist traffic and trade in meat products have come to a virtual halt. The disease, which is highly contagious to cattle and hogs, has been reported in Czechoslovakia, Hungary, Romania, Bulgaria, and Yugoslavia. There also have been reports of several outbreaks in the USSR. Strict quarantine of movements of animals and people, and mass inoculation of livestock will be required to quell an epidemic that could adversely affect the output of livestock for several years. The last major outbreak of the disease occurred in 1965 and was largely confined to Hungary. [REDACTED]

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KENYA: The UK is planning to provide Kenya with a \$24-million defense package that will include the country's first jet fighters--six Hawker Hunters--and three coastal patrol boats. The loan, negotiated on the "best possible terms," according to a UK official, will cover the largest purchase of arms Kenya has ever made. The UK, on which Nairobi depends for arms and training, transferred about \$27 million in military facilities and \$6 million in materiel as part of the independence settlement in 1963. Kenya has since made small purchases from Germany, France, and Canada, as well as the UK. [REDACTED]

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